

102 KAR 1:175. Investment policies.

RELATES TO: KRS 161.430

STATUTORY AUTHORITY: KRS 161.310, 161.430(1)

NECESSITY, FUNCTION, AND CONFORMITY: KRS 161.310 requires the Teachers' Retirement System Board of Trustees to promulgate administrative regulations for the administration of the funds of the retirement system and for the transaction of business. KRS 161.430(1) requires the board of trustees to promulgate administrative regulations to establish investment policies and procedures to carry out its responsibilities and provides that the board of trustees shall have full power and responsibility for the purchase, sale, exchange, transfer, or other disposition of the investments and money of the Teachers' Retirement System. This administrative regulation establishes investment policies and procedures to carry out these responsibilities.

Section 1. (1)(a) The board of trustees shall appoint an investment committee in accordance with the provisions of KRS 161.430(1). The trustees shall be named at the beginning of each fiscal year.

(b) The executive secretary shall act on behalf of the investment committee in administering the investment policies and procedures established in this administrative regulation.

(c) To ensure a timely market transaction, the executive secretary and the chief investment officer may make a purchase or sale of an investment instrument without prior board approval if the action conforms to the provisions established in this administrative regulation.

(2) The staff investment personnel employed by the board under KRS 161.430(1) may be delegated transaction responsibilities under the supervision of the chief investment officer and the executive secretary.

(3)(a) Contracts with contracted investment counselors employed under KRS 161.430(1) shall be on a fiscal year basis for twelve (12) month periods, except that contracts entered into on or after the start of a fiscal year shall not extend beyond the end of the fiscal year in which the contract is entered.

(b) The system may invest in either separately-managed accounts or commingled funds.

(c) The investment committee shall make recommendations to the board regarding employment of investment counselors and the renewal or nonrenewal of contracts.

(d)1. The system may utilize the services of a consultant to advise the investment committee, as well as to assist in evaluating the effectiveness of investment counselors.

2. A consultant may advise the investment committee with regard to asset class allocation and the combined effect of the various portfolios on the system's overall risk and expected long-term return.

(e) Investment counselors shall provide reports documenting their results at least quarterly and meet with the investment committee if requested.

(f) An annual report on the performance and service of each investment counselor shall be provided to the board with recommendations from the investment committee.

(4) The following procedures shall be followed with regard to all investment transactions, whether internally or externally managed:

(a) The board shall be provided a quarterly report reflecting a complete record of each investment transaction that occurred during that quarter;

(b) The investment committee shall be provided a complete record of each investment transaction or holding;

(c) The staff shall maintain a file of investment directives that indicates the committee's separate review of each specific long-term investment; and

(d) An "authorization for investment" shall be approved or denied by the executive secretary or

the chief investment officer.

Section 2. Asset Allocation. (1) In order to preserve the assets of the system and produce the required rate of return while minimizing risk, assets shall be prudently diversified among various classes of investments.

(2) In determining asset allocation policy, the investment committee and the board shall be mindful of the system's liquidity and its capability of meeting both short and long-term obligations. The limitations established in this subsection shall apply to the asset classes in which funds are invested.

(a) There shall not be a limit on the amount of investments owned by the system if the investments are guaranteed by the United States government.

(b) The amount invested in corporate debt obligations shall not equal more than thirty-five (35) percent of the assets of the system.

(c) The amount invested in common stocks or preferred stocks shall not equal more than sixty-five (65) percent of the assets of the system.

(d) The amount invested in a stock portfolio designed to replicate a general stock index shall not equal more than twenty-five (25) percent of the assets of the system.

(e) More than thirty (30) percent of the assets of the system shall not be invested in the stocks of companies domiciled outside of the United States. An amount of this type if invested shall be included in the sixty-five (65) percent limitation established under this subsection.

(f) The amount invested in real estate shall not equal more than ten (10) percent of the assets of the system. Real estate shall include real estate equity, real estate lease agreements, and shares in real estate investment trusts.

(g) The amount invested in alternative investments shall not equal more than ten (10) percent of the assets of the system. This category may include private equity, venture capital, timberland, and infrastructure investments.

(h)1. The amount invested in an additional category or categories of investments shall not equal more than fifteen (15) percent of the assets of the system.

2. The board shall approve or deny by resolution any additional category or categories of investments.

Section 3. Fixed Income Investments. The specific guidelines associated with a fixed income investment shall be established in this section.

(1) Unless the issuer is the United States government or a government sponsored enterprise (GSE), the amount invested in the securities of a single issuer shall not equal more than five (5) percent of the assets of the system.

(2)(a) A fixed income investment shall be rated at the time of purchase as investment grade by at least one (1) of the major rating services.

(b) A private placement debt investment shall be subject to the same credit qualifications as each fixed income investment.

(c) The fixed income investment portfolio as a whole shall maintain an average rating of investment grade by at least one (1) of the major rating services.

(3) Investments in mortgages or mortgage-backed securities shall consist of first mortgages on property located in the United States unless the mortgage is guaranteed by the United States government.

(4) A foreign debt purchase shall comply with all other fixed income restrictions in this section. Foreign debt shall not in aggregate equal more than ten (10) percent of the assets of the system.

Section 4. Equity and Real Estate Investments. The requirements established in this section

shall apply to equity and real estate investments.

(1)(a) The system's position in a single stock shall not exceed two and one-half (2.5) percent of the system's assets.

(b) The system's position in a single stock shall not exceed five (5) percent of the outstanding stock for that company unless the investment is part of a venture capital program.

(2) A real estate purchase that is conducted on a triple net lease basis shall involve a company that at the initial agreement generates one (1) of the three (3) highest credit ratings by a national credit rating service.

(3)(a) A real estate investment shall be judged on its total return potential.

(b) The system shall not acquire undeveloped land unless development plans are imminent.

(c) This provision shall not preclude investment in timberland.

(4) The system shall not buy bullion, stamps, rare coins, or other collectibles, unless approved by the board as an additional category of investment. The board shall approve these assets as an additional category of investment only in exceptional circumstances if there is a potential investment in these assets that provides a high value opportunity and lowers the risk of the portfolio overall. (TRS-26; 1 Ky.R. 464; eff. 3-12-1975; 17 Ky.R. 3214; eff. 7-5-1991; 24 Ky.R. 129; 559; eff. 9-4-1997; 31 Ky.R. 1873; 32 Ky.R. 45; eff. 8-5-2005; 33 Ky.R. 3431; eff. 7-19-2007; 37 Ky.R. 2039; 2375; eff. 5-6-2011; Crt eff. 7-3-2019.)